



TENNESSEE HOUSING DEVELOPMENT AGENCY

FINANCIAL STATEMENTS

UNAUDITED

December 31, 2005



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
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Independent Auditor's Report

October 6, 2005
(except for the last paragraph of this
letter which is dated March 10, 2006)

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 2005, and June 30, 2004, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Housing Development Agency; approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to the bond finance committee of the Tennessee Housing Development Agency.

The Honorable John G. Morgan
October 6, 2005
(except for the last paragraph of this
letter which is dated March 10, 2006)
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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency as of June 30, 2005, and June 30, 2004, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

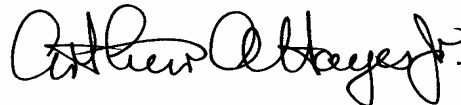
The management's discussion and analysis section is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplementary information, following the notes to the financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2005, on our consideration of the agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying statements of net assets as of December 31, 2005, and December 31, 2004, and the related statements of revenues, expenses, and changes in net assets and cash flows for the six months then ended were not audited by us and, accordingly, we do not express an opinion on them.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes Jr.", with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA,
Director

AAH/tlh

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005 AND JUNE 30, 2004

This section of the Tennessee Housing Development Agency's (Agency) annual financial statements presents management's discussion and analysis of the financial performance of the Agency for the years ended June 30, 2005 and June 30, 2004. This information is being presented to provide additional information regarding the activities of the Agency and to meet the disclosure requirements of the Governmental Accounting Standards Board Statement Number 34. *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*. This analysis should be read in conjunction with the Agency's financial statements, which follow this section.

INTRODUCTION – THE TENNESSEE HOUSING DEVELOPMENT AGENCY

The Tennessee Housing Development Agency was established by the Tennessee General Assembly in 1973,

In order to promote the production of more affordable new housing units for very low, low and moderate income individuals and families in the state, to promote the preservation and rehabilitation of existing housing units for such persons, and to bring greater stability to the residential construction industry and related industries so as to assure a steady flow of production of new housing units... (*Tennessee Code Annotated* 13-23-102)

The mission of the Agency is to be the lead State Agency promoting sound and affordable housing for people who need help. THDA's goal is to provide housing assistance to those in need, and to do so by offering a variety of programs to serve various types of need. One of the primary ways the Agency assists people is by offering mortgages for first-time homebuyers at below conventional market interest rates. In 2002, the Agency celebrated the financing of the 80,000th homebuyer. The Agency also serves as the master servicer for all active mortgages funded by THDA. In addition to helping homebuyers, THDA administers the federal Section 8 rental assistance programs, including both tenant- and project-based assistance. THDA also administers grant programs, awarded on a competitive annual cycle, for rehabilitation and new construction of owner-occupied units and small rental projects. THDA is also involved in the development and rehabilitation of multifamily rental housing for low-income families by administering the federal Low-Income Housing Tax Credit, which is a competitive process, and by setting aside a portion of Bond Authority to be allocated to local authorities for specific multifamily developments.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, as well as notes to the financial statements. The statements of net assets provide financial information on the overall financial position of the Agency at each year end. The statements of revenues, expenses and changes in net assets summarize the results of operations over the course of each fiscal year. The statements of cash flows provide relevant information about the Agency's cash receipts and cash payments during each fiscal year. The notes to the financial statements provide useful

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
JUNE 30, 2005 AND JUNE 30, 2004

information regarding the Agency's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events. The Agency's financial statements are presented using the accrual basis of accounting and the flow of economic resources measurement focus. In addition to the basic financial statements, other supplementary information is also included.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2005

- Total assets increased by \$11.8 million, or .5 %.
- Total liabilities decreased \$22.6 million, or 1.2%.
- Total assets exceeded total liabilities by \$432.5 million. This is an increase of \$34.4 million, or 8.6%, from fiscal year 2004.
- Cash and cash equivalents increased \$68.2 million, or 18.1%.
- Total investments decreased \$27 million, or 7.1%.
- Bonds and notes payable decreased \$17.2 million, or 1%.
- The Agency originated \$215.3 million in new loans, which is a decrease of \$57.9 million, or 21.2% from the prior year.

Year Ended June 30, 2004

- Total assets decreased by \$76 million, or 3.3 %.
- Total liabilities decreased by \$68.4 million, or 3.6%.
- Total assets exceeded total liabilities by \$398.1 million. This is a decrease of \$7.6 million, or 1.9%, from fiscal year 2003.
- Cash and cash equivalents increased \$9.9 million, or 2.7%.
- Total investments decreased \$73.2 million, or 16.2%.
- Bonds and notes payable decreased \$58.0 million, or 3.2%.
- The Agency originated \$273.2 million in new loans, which is an increase of \$114.3 million, or .72% from the prior year.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
JUNE 30, 2005 AND JUNE 30, 2004

FINANCIAL ANALYSIS OF THE AGENCY

Net Assets. The following table focuses on the changes in net assets between fiscal years (expressed in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current assets	\$ 508,384	\$ 459,245	\$ 486,913
Capital assets	16	16	-
Other noncurrent assets	<u>1,727,813</u>	<u>1,765,131</u>	<u>1,813,491</u>
Total assets	<u>2,236,213</u>	<u>2,224,392</u>	<u>2,300,404</u>
Current liabilities	355,537	138,620	308,264
Noncurrent liabilities	<u>1,448,152</u>	<u>1,687,697</u>	<u>1,586,424</u>
Total liabilities	<u>1,803,689</u>	<u>1,826,317</u>	<u>1,894,688</u>
Invested in capital assets	16	16	-
Restricted net assets	425,198	388,913	396,203
Unrestricted net assets	<u>7,310</u>	<u>9,146</u>	<u>9,513</u>
Total net assets	<u>\$ 432,524</u>	<u>\$ 398,075</u>	<u>\$ 405,716</u>

2005 to 2004

- The Agency's total net assets increased \$34.4 million, or 8.6%, from \$398.1 million at June 30, 2004 to \$432.5 million at June 30, 2005. This primarily resulted from the increase in the fair value of investments.
- Mortgage loans receivable decreased \$25.3 million, or 1.8%, from \$1,417.0 million at June 30, 2004 to \$1,391.7 million at June 30, 2005. The decrease resulted from loan prepayments exceeding loan originations.
- Total liabilities decreased \$22.6 million, or 1.2%, from \$1,826.3 million at June 30, 2004 to \$1,803.7 million at June 30, 2005. The decrease is primarily due to the retirement of debt.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
JUNE 30, 2005 AND JUNE 30, 2004

2004 to 2003

- The Agency's total net assets decreased \$7.6 million, or 1.9%, from \$405.7 million at June 30, 2003 to \$398.1 million at June 30, 2004. This primarily resulted from the decrease in the fair value of investments.
- Mortgage loans receivable decreased \$9.3 million, or .7%, from \$1,426.3 million at June 30, 2003 to \$1,417.0 million at June 30, 2004. The decrease resulted from loan prepayments exceeding loan originations.
- Total liabilities decreased \$68.4 million, or 3.6%, from \$1,894.7 million at June 30, 2003 to \$1,826.3 million at June 30, 2004. The decrease is primarily due to the retirement of debt.

Changes in Net Assets. The following table summarizes the changes in revenues, expenses and changes in net assets between fiscal years (expressed in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues			
Mortgage interest income	\$ 88,438	\$ 93,763	\$ 104,714
Investment income (loss)	39,007	(67)	48,538
Other	13,035	12,174	11,055
Total operating revenues	<u>140,480</u>	<u>105,870</u>	<u>164,307</u>
Operating expenses			
Interest expense	81,294	83,326	102,164
Other	20,660	24,005	19,772
Total operating expenses	<u>101,954</u>	<u>107,331</u>	<u>121,936</u>
Operating income (loss)	<u>38,526</u>	<u>(1,461)</u>	<u>42,371</u>
Nonoperating revenues (expenses)			
Grant revenues	151,630	143,630	138,123
Grant expenses	<u>(155,707)</u>	<u>(149,810)</u>	<u>(144,777)</u>
Total nonoperating revenues (expenses)	<u>(4,077)</u>	<u>(6,180)</u>	<u>(6,654)</u>
Changes in net assets	<u>\$ 34,449</u>	<u>\$ (7,641)</u>	<u>\$ 35,717</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
JUNE 30, 2005 AND JUNE 30, 2004

2005 to 2004

For the year ended June 30, 2005, total operating revenues increased \$34.6 million from \$105.9 million for the year ended June 30, 2004, to \$140.5 million for the year ended June 30, 2005. The primary reasons for this increase are as follows:

- Mortgage interest income decreased \$5.4 million, or 5.7%, from \$93.8 million in 2004 to \$88.4 million in 2005. This is due to mortgage loan prepayments of higher interest loans, as well as new loans originated at lower interest rates.
- Investment income increased \$39 million, from a net loss of \$67,000 in 2004 to a net gain of \$39 million in 2005. This increase is primarily due to a net increase in the fair value of investments of \$18.2 million in 2005 as compared to a net decrease of \$22.2 million in 2004. In addition, new investments are yielding low interest rates due to current market conditions.

For the year ended June 30, 2005, total operating expenses decreased \$5.4 million, or 5%, from \$107.3 million in 2004 to \$101.9 million in 2005. This decrease is primarily due to a decrease in interest expense of \$2.0 million, from \$83.3 million in 2004 to \$81.3 million in 2005. This decrease occurred as a result of the Agency continuing to use mortgage loan prepayments to call higher-interest bonds.

While the total net assets for fiscal year 2005 increased \$34.4 million from the previous year, the non-monetary accretion of deep discount bonds, and the change in the fair value of investments contributed \$12.4 million toward this increase. When considered without these non-monetary components, net assets increased \$21.5 million.

2004 to 2003

For the year ended June 30, 2004, total operating revenues decreased \$58.4 million from \$164.3 million for the year ended June 30, 2003 to \$105.9 million for the year ended June 30, 2004. The primary reasons for this decrease are as follows:

- Mortgage interest income decreased \$10.9 million, or 10.5%, from \$104.7 million in 2003 to \$93.8 million in 2004. This is due to mortgage loan prepayments of higher interest loans, as well as new loans originated at record-low rates.
- Investment income decreased \$48.6 million, from \$48.5 million in 2003 to a net loss of \$67,000 in 2004. This decrease is due to a net decrease in the fair value of investments of \$22.2 million in 2004 (as compared to a net increase of \$18.1 million in 2003) as well as higher coupon investments that were called, which were subsequently re-invested into investments having a lower interest rate.

For the year ended June 30, 2004, total operating expenses decreased \$14.6 million, or 12%, from \$121.9 million in 2003 to \$107.3 million in 2004. This decrease is primarily due to a decrease in interest expense of \$18.8 million, from \$102.1 million in 2003 to \$83.3 million in

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
JUNE 30, 2005 AND JUNE 30, 2004

2004. This decrease occurred as a result of the Agency continuing to use mortgage loan prepayments to call higher-interest bonds.

While the total net assets for fiscal year 2004 decreased \$7.6 million from the previous year, the non-monetary portion of accretion of deep discount bonds, and the change in the fair value of investments contributed \$19.2 million toward this decrease. When considered without these non-monetary components, net assets increased \$11.6 million.

CASH FLOWS

Cash flows for fiscal years ending 2005, 2004, and 2003 were as follows (expressed in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash, July 1	\$ 376,297	\$ 366,383	\$ 264,881
Net cash provided by operating activities	100,663	97,401	203,205
Net cash used by non-capital financial activities	(98,539)	(157,673)	(216,757)
Cash flows from capital and related financing activities	(5)	(16)	-
Net cash provided by investing activities	66,170	70,202	115,054
Net increase in cash and cash equivalents	<u>68,289</u>	<u>9,914</u>	<u>101,502</u>
Cash and cash equivalents, June 30	<u>\$ 444,586</u>	<u>\$ 376,297</u>	<u>\$ 366,383</u>

The Agency has generated positive cash flow for each of the past three years. The increase in cash and cash equivalents for fiscal year 2004 was reduced due to the Agency's aggressiveness in calling higher interest debt in the face of increasing mortgage prepayments.

Under Chapter 825, Public Acts of 2002 and section 9.(2) of Chapter 827, Public Acts of 2002, for the sole purpose of meeting the requirements of funding the operations of the primary government for fiscal year ended June 30, 2002, a payment in the amount of \$35.4 million was authorized from the Agency's net assets. This transfer was established as a payable and as a non-operating expense for the year ended June 30, 2002, and a use of cash for the year ended June 30, 2003.

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
JUNE 30, 2005 AND JUNE 30, 2004

DEBT ACTIVITY

Bonds and notes outstanding at June 30 were as follows (expressed in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Bonds payable	\$1,433,430	\$1,489,299	\$1,769,506
Notes payable	<u>311,900</u>	<u>273,240</u>	<u>51,070</u>
Total bonds and notes payable	<u>\$1,745,330</u>	<u>\$1,762,539</u>	<u>\$1,820,576</u>

Year Ended June 30, 2005

Total bonds and notes payable decreased \$17.2 million, or 1%, due primarily to retirement of debt. During the fiscal year, the Agency issued debt totaling \$319 million, with activity arising from two bond issues totaling \$203.5 million and three draws under the single family mortgage note program totaling \$115.5 million.

Year Ended June 30, 2004

Total bonds and notes payable decreased \$58.0 million, or 3.2%, due primarily to retirement of debt. During the fiscal year, the Agency issued debt totaling \$741.0 million, with activity arising from four bond issues totaling \$406.9 million and four draws under the single family mortgage note program totaling \$334.1 million.

Note Authority

On March 18, 2004, the Agency's board of directors authorized the issuance of Single Family Mortgage Note, Series 2004CN-1. This \$450 million drawdown note with a maturity of up to three years closed on August 31, 2004.

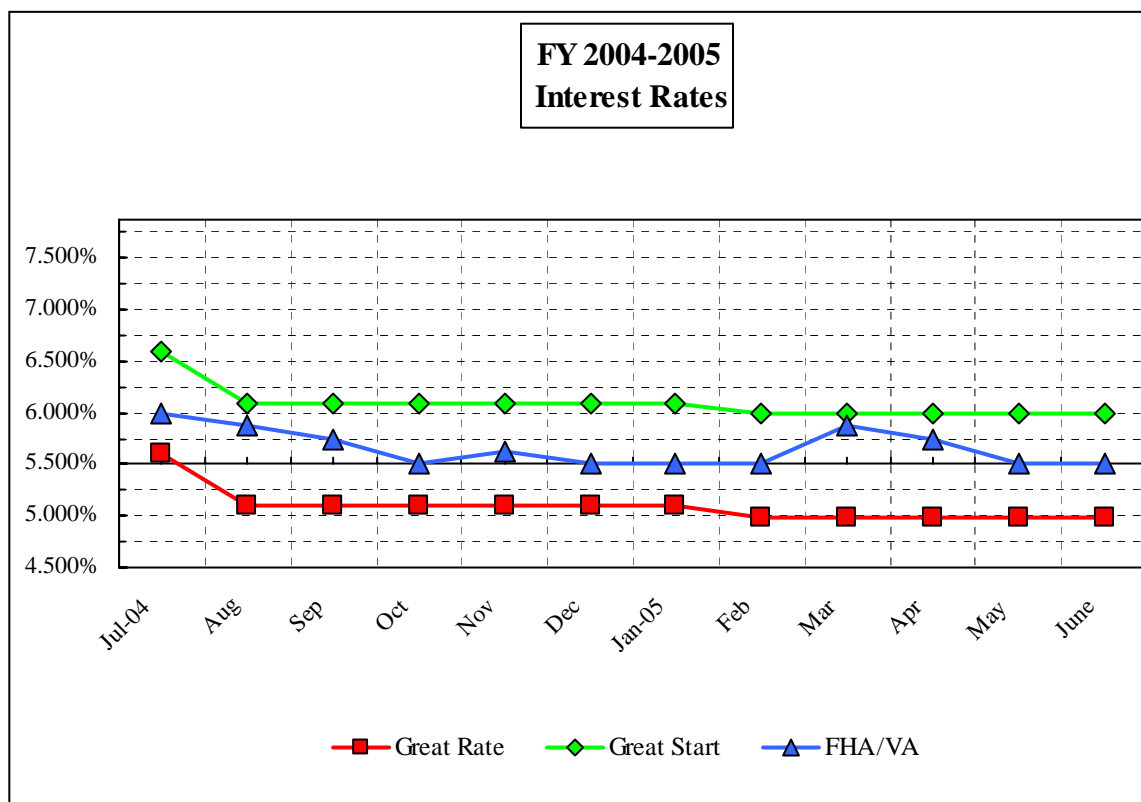
Additional information on the Agency's long-term debt is presented in Note 4 to the financial statements.

ECONOMIC FACTORS

Fiscal Year 2005 saw considerable reduction in the amount of prepayments as compared to fiscal years 2004 and 2003. Prepayments for fiscal year 2005 were \$190.1 million, which is a \$59.1 million, or 23.7%, reduction from the \$249.2 million as recorded in fiscal year 2004. Prepayments for fiscal year 2003 were \$231.3 million.

New mortgage loan originations continued at below average interest rates. The following chart depicts the Agency's mortgage interest rates for fiscal year 2005, with the comparable FHA/VA rate:

TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
JUNE 30, 2005 AND JUNE 30, 2004



The Agency continued to use the proceeds from mortgage loan prepayments to call its bond debt on a quarterly basis. Additionally, mortgage loan repayments were reinvested into investments with lower yields, although not quite as low as was seen in the prior fiscal year. As a result, the Agency experienced a net increase in the fair value of investments of \$18.2 million, as compared to a net decrease of \$22.2 million for fiscal year 2004.

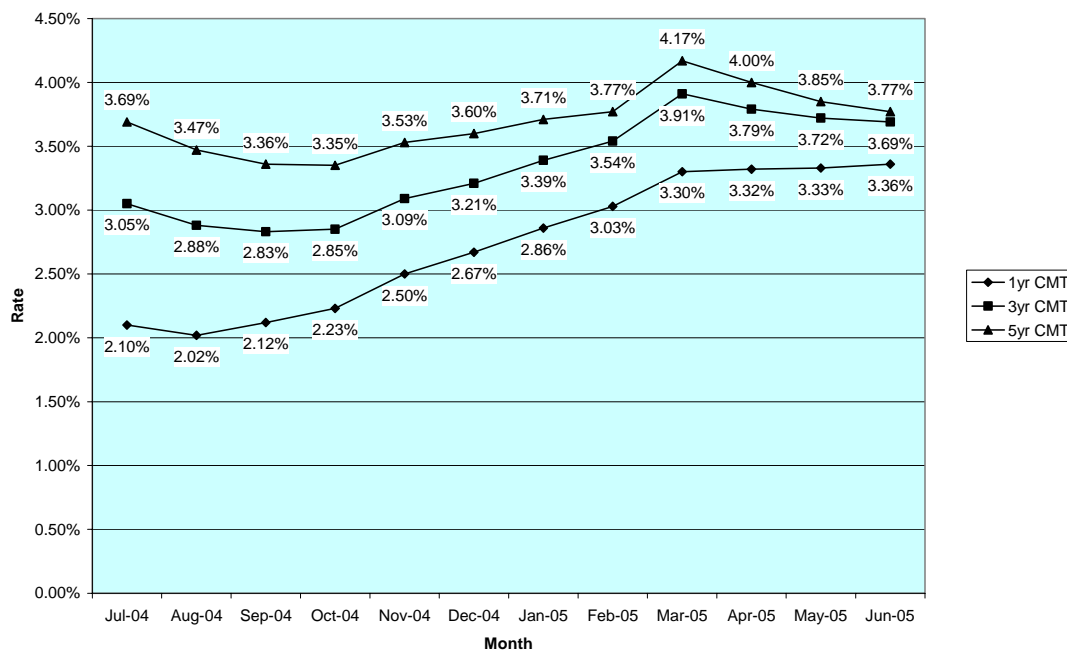
The change in market interest rates directly affects the rate of reinvestment of the Agency's cash. In general, the market rates for fiscal year 2005 were somewhat higher than those noted in fiscal year 2004, but still remain relatively low when considered with rates over the past two decades. The following charts depict the one, three, and five year Constant Maturity Treasury (CMT) rates:

TENNESSEE HOUSING DEVELOPMENT AGENCY

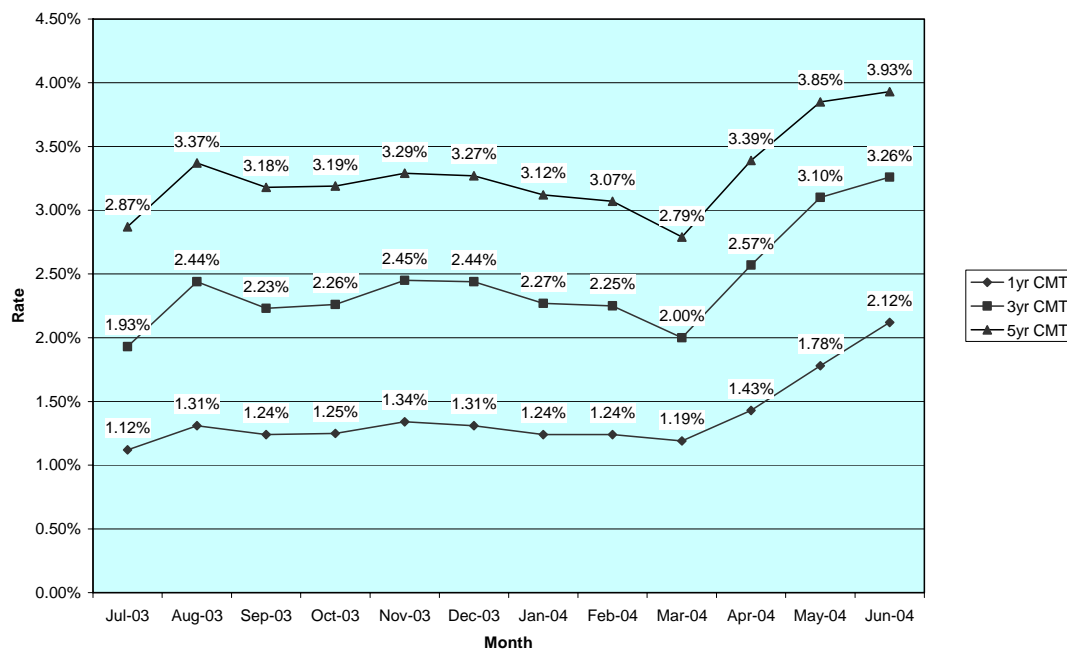
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

JUNE 30, 2005 AND JUNE 30, 2004

Investment Benchmarks FYE 2005



Investment Benchmarks FYE 2004



TENNESSEE HOUSING DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)
JUNE 30, 2005 AND JUNE 30, 2004

CONTACTING THDA's FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's stakeholders with a general overview of the Agency's finances and to show accountability for the funds that it receives, invests, and expends. If you have questions about this report, or need additional financial information, contact Ted Fellman, CPA, Deputy Executive Director / Chief Financial Officer at (615) 741-1104 or via e-mail at Ted.Fellman@state.tn.us.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF NET ASSETS
(Expressed in Thousands)

	December 31, 2005 (Unaudited)	December 31, 2004 (Unaudited)	June 30, 2005	June 30, 2004
ASSETS				
Current assets:				
Cash and cash equivalents (Note 2) (Note 3)	\$ 478,246	\$ 439,008	\$ 444,096	\$ 376,254
Investments (Note 2)	28,982	-	-	15,000
Receivables:				
Accounts	8,010	12,690	12,054	11,771
Interest	12,454	12,854	12,006	13,369
First mortgage loans	33,089	32,550	32,939	32,786
Due from federal government	18,612	11,229	7,289	10,065
Total current assets	579,393	508,331	508,384	459,245
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents (Note 2)	118	40	490	43
Investments (Note 2)	184,416	184,000	186,856	184,336
Investment interest receivable	2,527	2,353	2,367	2,412
Investments (Note 2)	158,512	166,928	165,474	180,044
First mortgage loans receivable	1,389,884	1,369,137	1,358,785	1,384,193
Deferred charges	11,553	11,281	11,124	11,436
Advance to local government	2,792	2,685	2,707	2,657
Other receivables	10	11	10	10
Capital assets:				
Furniture and equipment	93	87	93	87
Less accumulated depreciation	(77)	(71)	(77)	(71)
Total noncurrent assets	1,749,828	1,736,451	1,727,829	1,765,147
Total assets	2,329,221	2,244,782	2,236,213	2,224,392
LIABILITIES				
Current liabilities:				
Checks payable / Wires payable (Note 3)	13,120	2,237	1,764	995
Accounts payable	6	-	746	1,355
Accrued payroll and related liabilities	-	-	279	278
Compensated absences	213	290	313	275
Due to primary government	-	-	42	42
Interest payable	35,599	36,312	35,315	36,423
Escrow deposits	774	975	1,485	1,343
Prepayments on mortgage loans	1,284	1,497	1,268	1,450
Advance on bond sale	-	-	-	1,000
Notes payable (Note 4)	-	-	235,595	-
Bonds payable (Note 4)	96,325	110,523	78,730	95,459
Total current liabilities	147,321	151,834	355,537	138,620
Noncurrent liabilities:				
Notes payable (Note 4)	302,075	302,650	76,305	273,240
Bonds payable (Note 4)	1,429,280	1,356,149	1,354,700	1,393,840
Compensated absences	413	314	326	297
Escrow deposits	14,170	13,836	13,875	13,863
Arbitrage rebate payable	3,416	2,559	2,687	6,110
Deferred revenue	265	362	259	347
Total noncurrent liabilities	1,749,619	1,675,870	1,448,152	1,687,697
Total liabilities	1,896,940	1,827,704	1,803,689	1,826,317
NET ASSETS				
Invested in capital assets	16	16	16	16
Restricted for single family bond programs (Note 5)	423,848	404,889	421,584	384,955
Restricted for grant programs (Note 5)	225	447	460	804
Restricted for Homebuyers Revolving Loan Program (Note 5)	3,154	3,154	3,154	3,154
Unrestricted (Note 7)	5,038	8,572	7,310	9,146
Total net assets	\$ 432,281	\$ 417,078	\$ 432,524	\$ 398,075

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
(Expressed in Thousands)

	For the Six Months Ended December 31, 2005 (Unaudited)	For the Six Months Ended December 31, 2004 (Unaudited)	For the Year Ended June 30, 2005	For the Year Ended June 30, 2004
OPERATING REVENUES				
Mortgage interest income	\$ 43,257	\$ 44,768	\$ 88,438	\$ 93,763
Investment income:				
Interest	11,320	10,108	20,779	22,143
Net increase (decrease) in the fair value of investments	(4,556)	10,418	18,228	(22,210)
Federal grant administration fees	3,443	4,716	9,861	9,786
Fees and other income	2,384	1,947	3,174	2,388
Total operating revenues	<u>55,848</u>	<u>71,957</u>	<u>140,480</u>	<u>105,870</u>
OPERATING EXPENSES				
Salaries and benefits	4,987	4,933	9,778	8,702
Contractual services	1,013	996	1,707	1,560
Materials and supplies	161	221	460	559
Rentals and insurance	482	471	996	1,035
Other administrative expenses	215	192	371	382
Other program expenses	1,672	565	1,566	5,960
Interest expense	42,518	40,432	81,294	83,326
Mortgage service fees	2,525	2,544	5,074	5,135
Issuance costs	263	384	703	672
Depreciation	-	-	5	-
Total operating expenses	<u>53,836</u>	<u>50,738</u>	<u>101,954</u>	<u>107,331</u>
Operating income (loss)	<u>2,012</u>	<u>21,219</u>	<u>38,526</u>	<u>(1,461)</u>
NONOPERATING REVENUES (EXPENSES)				
Federal grants revenue	78,821	76,022	151,630	143,630
Federal grants expenses	(78,821)	(76,022)	(151,630)	(143,630)
Local grants expenses	(2,255)	(2,216)	(4,077)	(6,180)
Total nonoperating revenues (expenses)	<u>(2,255)</u>	<u>(2,216)</u>	<u>(4,077)</u>	<u>(6,180)</u>
Change in net assets	<u>(243)</u>	<u>19,003</u>	<u>34,449</u>	<u>(7,641)</u>
Total net assets, July 1	<u>432,524</u>	<u>398,075</u>	<u>398,075</u>	<u>405,716</u>
Total net assets, End of period	<u>\$ 432,281</u>	<u>\$ 417,078</u>	<u>\$ 432,524</u>	<u>\$ 398,075</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS
(Expressed in Thousands)

	For the Six Months Ended December 31, 2005 (Unaudited)	For the Six Months Ended December 31, 2004 (Unaudited)	For the Year Ended June 30, 2005	For the Year Ended June 30, 2004
Cash flows from operating activities:				
Receipts from customers	\$ 153,801	\$ 158,655	\$ 329,852	\$ 379,476
Receipts from federal government	1,568	2,354	6,079	6,916
Other miscellaneous receipts	2,384	1,947	3,174	2,389
Acquisition of mortgage loans	(138,470)	(99,638)	(215,315)	(273,234)
Payments to service mortgages	(2,525)	(2,544)	(5,074)	(5,135)
Payments to suppliers	(3,632)	(3,039)	(4,625)	(3,758)
Payments to federal government	729	(3,551)	(3,423)	(224)
Payments to employees	(5,434)	(5,333)	(10,005)	(9,029)
Net cash provided by operating activities	8,421	48,851	100,663	97,401
Cash flows from non-capital financing activities:				
Operating grants received	69,373	77,219	158,188	145,575
Negative cash balance implicitly financed (repaid)	11,356	1,242	769	430
Proceeds from sale of bonds	203,607	100,910	203,534	411,066
Proceeds from issuance of notes	238,455	73,330	115,490	334,085
Operating grants paid	(81,356)	(78,699)	(155,889)	(150,127)
Call premium paid	-	-	(175)	(3,053)
Advance on bond sale	-	-	-	1,000
Cost of issuance paid	(1,491)	(884)	(1,698)	(3,194)
Principal payments	(360,534)	(169,401)	(339,256)	(802,459)
Interest paid	(40,871)	(39,131)	(79,502)	(90,996)
Net cash provided (used) by non-capital financing activities	38,539	(35,414)	(98,539)	(157,673)
Cash flows from capital and related financing activities:				
Purchases of capital assets	-	-	(5)	(16)
Net cash used by capital and related financing activities	-	-	(5)	(16)
Cash flows from investing activities:				
Proceeds from sales and maturities of investments	6,408	38,720	57,150	326,259
Purchases of investments	(36,294)	(2,499)	(18,366)	(281,844)
Investment interest received	16,704	13,093	27,386	25,787
Net cash provided (used) by investing activities	(13,182)	49,314	66,170	70,202
Net increase in cash and cash equivalents	33,778	62,751	68,289	9,914
Cash and cash equivalents, July 1	444,586	376,297	376,297	366,383
Cash and cash equivalents, End of period	\$ 478,364	\$ 439,048	\$ 444,586	\$ 376,297

(continued)

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS (cont.)
(Expressed in Thousands)

	For the Six Months Ended December 31, 2005 (Unaudited)	For the Six Months Ended December 31, 2004 (Unaudited)	For the Year Ended June 30, 2005	For the Year Ended June 30, 2004
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ 2,012	\$ 21,219	\$ 38,526	\$ (1,461)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	263	384	708	672
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	4,044	(919)	(283)	2,823
(Increase) decrease in mortgage interest receivable	(241)	237	1,294	744
(Increase) decrease in first mortgage loans receivable	(31,334)	15,264	25,205	9,253
(Increase) in due from federal government	(1,875)	(2,362)	(3,782)	(2,870)
Decrease in deferred charges	258	187	607	964
Decrease in other receivables	-	-	-	4
Increase (decrease) in accounts payable	(861)	(1,241)	(456)	96
Increase (decrease) in accrued payroll / compensated absences	(292)	(246)	68	(47)
Increase (decrease) in due to primary government	(42)	(42)	-	42
Increase (decrease) in deferred revenue	6	15	(88)	(45)
Increase (decrease) in arbitrage rebate liability	729	(3,551)	(3,423)	3,833
Investment (income) loss included as operating revenue	(6,764)	(20,526)	(39,007)	67
Interest expense included as operating expense	42,518	40,432	81,294	83,326
Total adjustments	6,409	27,632	62,137	98,862
Net cash provided by operating activities	\$ 8,421	\$ 48,851	\$ 100,663	\$ 97,401
Noncash investing, capital, and financing activities:				
Accretion of deep discount bonds	\$ 788	\$ 1,041	\$ 1,957	\$ 2,180
Increase (decrease) in fair value of investments	(9,517)	7,642	10,400	(21,344)
Total noncash investing, capital, and financing activities	\$ (8,729)	\$ 8,683	\$ 12,357	\$ (19,164)

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 *et seq.* The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

The Agency is governed by a board of directors. The Comptroller of the Treasury, the Secretary of State, the State Treasurer, the Commissioner of the Department of Finance and Administration, and the Staff Assistant to the Governor serve as *ex officio* board members of the Agency. The remaining board members are appointed by the Governor, the Speaker of the State Senate and the Speaker of the State House of Representatives. Board members are to be representatives of the housing, real estate, and home building industries, the mortgage profession, local governments, and the three grand divisions of the state and be knowledgeable about the problems of inadequate housing conditions in Tennessee. One member of the board is a resident board member as required by Section 505 of the Quality Housing and Work Responsibility Act of 1998 and 24 CFR Part 964, Subpart E.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body, approves its operating budget, and provides some financial support. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Agency generally follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Agency also has the option of following subsequent private-sector guidance subject to this same limitation. The Agency has elected not to follow subsequent private-sector guidance. Certain accounting policies and procedures are stipulated in the Agency's Mortgage Finance Program, Single Family Program, and Homeownership Program bond resolutions and the Single Family Mortgage Notes trust indenture. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
DECEMBER 31, 2005 (Unaudited), DECEMBER 31, 2004 (Unaudited)
JUNE 30, 2005, AND JUNE 30, 2004

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

d. Capital Assets

Capital assets, which include furniture and office equipment, are defined by the agency as assets with an initial, individual cost of \$5,000 or more.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Furniture	10 years
Computer equipment	3 years

e. Restricted Assets

Restricted assets are comprised of the Debt Service Reserve Funds. The bond resolutions require the agency to establish a Debt Service Reserve Fund for each bond issue. The bond resolutions require that if the Debt Service and Expense Funds or the Revenue Funds of a bond issue are not sufficient to provide for interest or principal and sinking fund requirements of that issue that funds be transferred from the Debt Service Reserve Fund to cover any deficiency.

f. Bond Issuance Costs, Refunding Costs, and Interest Accretion

1. **Bond Issuance Costs:** The agency amortizes bond issuance costs using the interest method over the life of the related bond issue. Unamortized bond issuance costs are reported as deferred charges.
2. **Bond and Note Refunding Costs:** The agency amortizes bond and note refunding costs using the straight-line method. Bonds and notes payable are reported net of the deferred amount on refundings.
3. **Bond Premiums and Discounts:** Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable unamortized bond premium or discount.
4. **Interest Accretion:** The difference between the face amount of deep discount bonds and the public offering price is not treated as bond discount. Deep discount bonds are subject to redemption at prices which increase from the public offering price up to the face amount. The carrying amount of these bonds is adjusted monthly to reflect the increased liability, with a corresponding charge to interest expense.
5. **Mortgage Discount:** Discounts on 30-year mortgage loans purchased by the agency are amortized using the straight-line method over 17 years, the estimated average life of mortgages. The amount amortized is credited to interest income.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
DECEMBER 31, 2005 (Unaudited), DECEMBER 31, 2004 (Unaudited)
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g. Cash and Cash Equivalents

In addition to demand deposits, petty cash, and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

h. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies; obligations guaranteed by the U.S.; public housing bonds secured by contracts with the U.S.; direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee; obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation; interest bearing time or demand deposits; collateralized certificates of deposit in authorized state depositories; and repurchase agreements collateralized by authorized securities.

Investments are stated at fair value.

i. Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

j. Mortgages

Mortgages are carried at their original amount less principal collected.

k. Operating Revenues and Expenses

The agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the agency into mortgage loans to certain qualified individuals and qualified housing sponsors. The agency's primary operation is to borrow funds in the bond market and issue those funds to make single-family and multi-family loans. The primary operating revenue is the interest income on outstanding mortgages and the investment income from proceeds of bonds. The primary operating expense of the agency is the interest expense on bonds outstanding.

l. Direct Servicing

On May 1, 2003, the agency began a pilot program called Direct Servicing for servicing mortgages originated by the agency. On March 17, 2005, the agency's Board of Directors voted to terminate the pilot program. The loans were sold to U. S. Bank, one of the agency's existing servicers, on July 1, 2005.

NOTE 2. DEPOSITS AND INVESTMENTS

The agency has implemented Governmental Accounting Standards Board Statement 40, *Deposit and Investment Risk Disclosures*, which established and modified the disclosure requirements for deposits and investments. Therefore, the 2004 deposit and investment disclosures have been presented in compliance with GASB 40, for comparative purposes.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
DECEMBER 31, 2005 (Unaudited), DECEMBER 31, 2004 (Unaudited)
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a. Deposits

Custodial Credit Risk. Custodial credit risk for deposits is the risk that in the event of a bank failure, the agency's deposits may not be returned to it.

The laws of the State of Tennessee require that collateral be pledged at 105% of the value of uninsured deposits. The agency's bond resolutions require deposits to be fully secured.

At December 31, 2005, \$4,137 of the agency's bank balances of \$1,699,127 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's agent but not in the agency's name.

At December 31, 2004, \$2,567,369 of the agency's bank balances of \$3,190,686 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's agent but not in the agency's name.

At June 30, 2005, \$1,307,005 of the agency's bank balances of \$2,683,008 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's agent but not in the agency's name.

At June 30, 2004, \$2,066,355 of the agency's bank balances of \$3,410,184 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's agent but not in the agency's name.

The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was \$8,656,393 on December 31, 2004. The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was \$2,262,490 on June 30, 2005 and \$2,362,600 on June 30, 2004. The State Treasurer's pooled investment fund is not rated by a nationally recognized statistical rating organization. The fund's investment policy and required disclosures are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

b. Investments

As stated in the Agency's investment policy, the "prudent man rule" shall be the standard of prudence used by all officials responsible for the investment of Agency assets. Investments are made as a prudent person would be expected to act in the management of their own affairs. That would be to consider the safety of capital and the probability of income, while avoiding speculative investments.

The agency's investment policy states that the agency portfolios will be diversified in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The agency may invest one hundred percent (100%) of its portfolio in U.S. government securities due to the absence of credit risk. A minimum of five percent (5%) of the par value of total investments must mature within five years. No more than fifty percent (50%) of the par value of the combined portfolios can be invested in maturities greater than fifteen (15) years without approval of the Bond Finance Committee.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
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Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements.

Interest Rate Risk. Interest Rate Risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

Investment Type	December 31, 2005		December 31, 2004	
	Fair Value	Effective Duration (Years)	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$245,361,829	4.498	\$205,664,721	4.936
U.S. Agency Discount	318,006,671	0.028	0	NA
U.S. Treasury Coupon	107,420,761	7.489	110,272,430	7.990
Municipal Securities	412,003	2.835	411,200	3.705
Variable Rate Securities	3,469,610	1.105	0	NA
Repurchase Agreements	132,000,000	0.013	0	NA
Municipal Discount Bonds	0	NA	492,630	0.488
Pass Through Securities	245,946	0.000	0	NA
Total	\$806,916,820		\$316,840,981	

Investment Type	June 30, 2005		June 30, 2004	
	Fair Value	Effective Duration (Years)	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$232,415,639	4.944	\$252,424,864	3.949
U.S. Agency Discount	78,542,489	0.389	3,427,981	24.693
U.S. Treasury Coupon	112,160,524	7.820	107,590,269	8.131
U.S. Treasury Discount	236,024,519	0.035	273,366,546	0.019
Municipal Securities	413,255	3.274	451,049	3.844
Variable Rate Securities	3,464,290	0.019	0	NA
Repurchase Agreements	91,000,000	0.000	95,000,000	0.000
Municipal Discount Bonds	500,000	0.000	486,855	0.987
Pass Through Securities	1,277,526	4.397	0	NA
Total	\$755,798,242		\$732,747,564	

The portfolios include the following investments (stated at par or face value) that have fair values highly sensitive to interest rate changes. These investments are recorded at fair value in the statement of net assets.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
DECEMBER 31, 2005 (Unaudited), DECEMBER 31, 2004 (Unaudited)
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Collateralized Mortgage Obligations. The agency purchased \$1,400,000 face value, mortgage-backed pass through securities on January 31, 2005, at .8125003 over par. The fair value of these securities on December 31, 2005, was \$245,946, and on June 30, 2005, was \$1,277,526. These securities were scheduled to mature on April 15, 2015; however, on January 15, 2006 all payments and interest were received liquidating this investment. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

Variable Rate Bonds.

The agency invested \$2,000,000 in range bonds issued by Federal Home Loan Bank. They were purchased at 95.125 of par on August 8, 2003, and mature August 6, 2015. The fair value of these securities on December 31, 2005, was \$1,931,600 and on June 30, 2005, was \$1,925,600 as shown in U.S. Agency Coupon in the tables above. The amount of the quarterly interest payments is calculated based on the six month London Interbank Offered Rate (LIBOR) rate. If the LIBOR rate does not exceed 6.625%, then the interest rate on the bond is 6.50%. If the LIBOR rate exceeds 6.625%, then the interest rate is 0.00%. The LIBOR rate can be reset daily on each New York and London banking day, and is closely watched if the LIBOR rate approaches 6.625%. At December 31, 2005, the six-month LIBOR rate was 4.7%, and at June 29, 2005, the rate was 3.69%. At no time during calendar or fiscal years 2005 did the LIBOR rate exceed 6.625%.

The agency invested \$500,000 in range bonds issued by Federal Home Loan Bank. They were purchased at 99.80 of par on August 24, 2004, and mature August 24, 2009. The fair value of these securities on December 31, 2005, is \$472,600 which is included in U.S. Agency Coupon in the table above. The amount of the quarterly interest payments is calculated based on the six month London Interbank Offered Rate (LIBOR) rate. If the LIBOR rate does not exceed 5.00%, then the interest rate on the bond is 5.00% effective until August 24, 2007. Then the interest rate is 5.00% if the LIBOR rate does not exceed 6.00%. If the LIBOR rate exceeds 5.00% or 6.00% respectively, then the interest rate is 0.00%. The LIBOR rate can be reset daily on each New York and London banking day, and is closely watched if the LIBOR rate approaches 5.00% currently. At December 31, 2005, the six-month LIBOR rate was 4.7%, and at no time during calendar year 2005 did the LIBOR rate exceed 5.00%.

The agency invested \$1,500,000 in range bonds issued by Federal Home Loan Bank. They were purchased at 99.75 of par on September 27, 2005, and mature March 27, 2009. The fair value of these securities on December 31, 2005, is \$1,444,050 which is included in U.S. Agency Coupon in the table above. The amount of the quarterly interest payments is calculated based on the three month London Interbank Offered Rate (LIBOR) rate. If the LIBOR rate does not exceed 5.00%, then the interest rate on the bond is 6.00%. If the LIBOR rate exceeds 5.00% then the interest rate is 0.00%. The LIBOR rate can be reset daily on each New York and London banking day, and is closely watched if the LIBOR rate approaches 5.00%. At December 31, 2005, the three-month LIBOR rate was 4.53%, and at no time during calendar year 2005 did the LIBOR rate exceed 5.00%.

The agency also invested \$3,475,000 in variable rate bonds issued by Federal Home Loan Bank. It was purchased at 99.975 of par on February 22, 2005, and matures February 22, 2007. The fair value of these securities on June 30, 2005, is \$3,464,290.

The agency also invested \$3,475,000 in variable rate bonds issued by Federal Home Loan Bank. It was purchased at 100.00 of par on October 21, 2005, and matures February 22, 2007. The fair value of these securities on December 31, 2005, is \$3,469,610. The amount of the quarterly

TENNESSEE HOUSING DEVELOPMENT AGENCY
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interest payment is calculated at Constant Maturing Treasury (CMT) minus a 0.40% spread. The CMT is reset quarterly on the interest payment dates.

Credit Risk. Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Refer to Note 1.h for further explanation of the agency's permitted investments.

The Agency's investments in securities of United States agencies were rated AAA by Standard & Poor's, and Aaa by Moody's Investors Service. The municipal securities were rated AA/Aa2. Funds held in a money market mutual fund were rated AAAm/Aaa. The agency's investments in repurchase agreements were collateralized by securities of United States agencies which were rated AAA by Standard & Poor's, and Aaa by Moody's Investors Service.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the agency's investment in a single issuer.

More than five percent of the agency's investments are invested in the following single issuers:

<u>Issuer</u>	<u>December 31, 2005</u>		<u>December 31, 2004</u>	
	<u>Fair Value</u>	<u>% of Portfolio</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$413,046,282	51.19	\$74,389,389	23.48
Federal Home Loan Mortgage Corp	\$64,335,650	7.97	\$60,063,897	18.96
Federal National Mortgage Assoc	\$69,716,945	8.64	\$51,209,224	16.16
Repurchase Agreements – U.S. Agency	\$132,000,000	16.36	0	NA

<u>Issuer</u>	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	<u>Fair Value</u>	<u>% of Portfolio</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$169,383,650	22.41	\$107,957,728	14.73
Federal Home Loan Mortgage Corp	\$68,909,191	09.12	\$70,636,286	09.64
Federal National Mortgage Assoc	\$56,697,282	07.50	\$55,746,328	07.61
Repurchase Agreements – U.S. Agency	\$91,000,000	12.04	\$95,000,000	12.96

NOTE 3. CHECKS PAYABLE / WIRES PAYABLE

This amount includes the sum of checks written in excess of the agency's checking account balance because of the agency's use of a controlled disbursement account. Through the use of a controlled disbursement account, the agency maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily. This also represents the sum of wires payable for grant payments for the federal Section 8 grant programs.

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NOTE 4. LIABILITIES

a. Bonds Issued and Outstanding

BONDS ISSUED AND OUTSTANDING							
(Thousands)							
		Issued	Interest	Ending	Ending	Ending	Ending
Series	Maturity Range	Amount	Rate	Balance	Balance	Balance	Balance
			(Percent)	12/31/2005	12/31/2004	6/30/2005	6/30/2004
<u>MORTGAGE FINANCE PROGRAM BONDS</u>							
1994A	1/1/96-7/1/2025	60,000	4.40 to 6.90	\$ -0-	\$325	\$ -0-	\$2,200
1994B	7/1/96-7/1/2025	100,000	4.50 to 6.60	-0-	4,155	1,645	7,335
1995B/C	1/1/97-7/1/2026	100,000	4.80 to 6.55	6,045	21,140	8,605	26,890
2003A	7/1/2004-7/1/2034	191,885	1.70 to 5.35	174,685	187,500	182,690	191,885
Total Mortgage Finance Program Bonds		\$451,885		\$180,730	\$213,120	\$192,940	\$228,310
Less: Deferred Amount on Refundings				(3,489)	(4,043)	(3,720)	(4,132)
Net Mortgage Finance Program Bonds				\$177,241	\$209,077	\$189,220	\$224,178
<u>HOMEOWNERSHIP PROGRAM BONDS</u>							
Issue K	7/1/92-7/1/2021	74,775	6.4 to 8.125	\$ -0-	\$ 1	\$ 1	\$ 1
			Interest accretion	-0-	3	3	3
Issue Y1/Z1	1/1/95-7/1/2024	50,000	3.50 to 6.10	-0-	11,280	-0-	13,095
Issue Y2/Z2	1/1/95-7/1/2024	30,000	3.50 to 5.75	-0-	7,905	-0-	8,885
1995-1	1/1/97-7/1/2026	65,000	4.35 to 6.48	4,825	6,450	5,780	11,035
1996-1	7/1/97-1/1/2026	40,000	4.00 to 5.85	13,920	17,880	15,790	19,695
1996-2	1/1/98-7/1/2027	65,000	4.40 to 6.375	18,830	25,785	23,030	29,495
1996-3	7/1/99-7/1/2028	65,000	4.30 to 6.00	18,390	22,440	20,115	24,975
1996-4	7/1/98-7/1/2027	55,000	4.35 to 6.45	11,645	16,435	14,060	22,255
1996-5	7/1/99-7/1/2028	60,000	3.85 to 5.75	30,935	35,685	33,520	38,980
1997-1	7/1/99-7/1/2028	57,885	4.00 to 5.40	28,855	33,995	31,245	37,755
1997-2	7/1/2000-7/1/2029	50,000	3.20 to 5.20	24,670	29,895	27,095	32,995
1997-3	1/1/98-7/1/2017	88,008	4.00 to 5.85	20,106	28,364	24,184	30,473
			Interest accretion	10,707	12,735	11,836	12,561
1998-1	7/1/2001-7/1/2030	50,000	3.95 to 5.40	24,005	28,965	26,630	33,230
1998-2	7/1/2000-7/1/2029	30,000	4.00 to 5.375	11,910	15,240	13,590	17,670
1998-3	7/1/2000-7/1/2031	80,000	3.70 to 6.15	32,105	40,750	36,860	46,470
1999-1	7/1/2001-7/1/2031	41,000	3.95 to 6.25	15,630	20,325	17,305	23,790
1999-2	7/1/2001-7/1/2031	150,000	4.25 to 5.70	40,670	50,800	45,500	58,120
1999-3	7/1/2001-7/1/2031	110,000	4.30 to 6.15	38,630	48,815	43,535	55,660
2000-1	7/1/2001-7/1/2031	105,000	4.60 to 6.40	22,520	43,730	29,240	52,910
2000-2	7/1/2001-7/1/2031	110,000	5.00 to 7.93	56,005	70,205	63,370	78,860
2001-1	7/1/2001-7/1/2032	135,390	3.41 to 5.65	81,555	89,750	85,195	95,370
2001-2	1/1/2003-7/1/2032	60,000	3.10 to 5.375	39,145	46,905	43,395	51,370
2001-3	1/1/2003-7/1/2032	64,580	2.85 to 5.45	40,480	49,830	45,385	53,690
2002-1	7/1/2003-7/1/2033	85,000	1.85 to 5.45	56,305	68,155	62,050	74,505
2002-2	1/1/2004-7/1/2033	85,000	2.25 to 5.40	65,425	75,380	70,535	79,015
2003-1	7/1/2004-7/1/2033	50,000	1.20 to 5.10	43,500	48,035	46,325	49,340
2003-2	7/1/2004-1/1/2034	60,000	1.10 to 4.40	54,735	58,735	57,300	60,000
2003-3	7/1/2004-1/1/2034	75,000	1.20 to 5.00	67,560	73,480	71,155	75,000
2004-1	1/1/2005-1/1/2035	80,000	1.30 to 5.00	74,875	80,000	78,075	80,000
2004-2	7/1/2005-1/1/2035	100,000	1.85 to 5.25	97,020	100,000	100,000	-0-
2004-3	1/1/2006-7/1/2035	100,000	2.55 to 5.125	97,890	-0-	100,000	-0-
2005-1	7/1/2006-1/1/2036	100,000	2.75 to 5.00	100,000	-0-	-0-	-0-
2005-2	1/1/2007-7/1/2036	100,000	3.00 to 5.00	100,000	-0-	-0-	-0-
Total Homeownership Program Bonds		\$2,471,638		\$1,342,848	\$1,257,953	\$1,242,104	\$1,267,203
Plus: Unamortized Bond Premiums				11,767	6,368	8,689	4,655
Less: Deferred Amount on Refundings				(6,251)	(6,726)	(6,583)	(6,737)
Net Homeownership Program Bonds				1,348,364	1,257,595	1,244,210	1,265,121
Net Total All Issues				\$1,525,605	\$1,466,672	\$1,433,430	\$1,489,299

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b. Debt Service Requirements

Debt service requirements to maturity at June 30, 2005 are as follows (expressed in thousands):

For the Year(s) Ending			Total
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2006	\$74,139	\$72,049	\$146,188
2007	50,330	70,616	120,946
2008	51,279	69,311	120,590
2009	46,369	63,687	110,056
2010	44,950	60,538	105,488
2011 – 2015	190,715	272,687	463,402
2016 – 2020	140,565	232,088	372,653
2021 – 2025	212,771	190,957	403,728
2026 – 2030	213,026	135,772	348,798
2031 – 2035	391,855	72,687	464,542
2036	<u>15,895</u>	<u>389</u>	<u>16,284</u>
Total	<u>\$1,431,894</u>	<u>\$1,240,781</u>	<u>\$2,672,675</u>

The debt principal in the preceding table is \$1.536 million less than that presented in the accompanying financial statements. Of this amount, \$11.839 million represents the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported as bond principal in the financial statements; it has been reported above as interest in those years (2006-2010) in which the bonds mature. Also, \$10.303 million, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

c. Redemption of Bonds and Notes

During the six months ended December 31, 2005, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of \$4,445,000 and in the Homeownership Program in the amount of \$58,850,000. The respective carrying values of the bonds were \$4,405,964 and \$58,629,700. This resulted in an expense to the Mortgage Finance Program of \$39,036 and the Homeownership Program of \$220,300.

On July 1, 2005, the agency used \$34,620,000 of Single Family Mortgage Program notes, 2004CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$16,185,000 early redemption and \$18,435,000 current maturities). The carrying amount of these bonds was \$20,490,966. The refunding resulted in a difference of \$24,034 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On July 28, 2005, the agency issued \$100,000,000 in Homeownership Bonds, Issue 2005-1. On August 11, 2005, the agency used \$28,740,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used July 1, 2003, November 3, 2003, January 2, 2004, and July 1, 2004, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by \$10,645,547 over the next 26.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$2,350,662.

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On November 17, 2005, the agency issued \$100,000,000 in Homeownership Bonds, Issue 2005-2. On December 8, 2005, the agency used \$39,630,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used January 1, 2003, July 1, 2003, and April 8, 2004 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The agency also used \$12,685,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used August 31, 2004, January 1, 2005, and July 1, 2005, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by \$3,366,848 over the next 27 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$6,527,722.

On December 8, 2005, a fourth drawdown was made on the Series 2004 CN-1 Notes in the amount of \$203,835,000. \$167,225,000 of these proceeds were used to refund 2002 CN-1 at maturity. \$36,610,000 of these proceeds will be used on January 1, 2006, to refund bonds previously issued in the Mortgage Finance and Homeownership programs (\$24,685,000 early redemption and \$11,925,000 current maturities).

During the six months ended December 31, 2004, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of \$1,090,000 and in the Homeownership Program in the amount of \$27,511,071. The respective carrying values of the bonds were \$1,081,970 and \$27,332,050. This resulted in an expense to the Mortgage Finance Program of \$8,030 and the Homeownership Program of \$179,021.

During the year ended June 30, 2005, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of \$12,320,000 and in the Homeownership Program in the amount of \$86,406,071. The respective carrying values of the bonds were \$12,255,060 and \$85,858,454. This resulted in an expense to the Mortgage Finance Program of \$64,940 and the Homeownership Program of \$547,617.

On July 1, 2004, the agency used \$39,185,000 of Single Family Mortgage Program notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$27,955,000 early redemption and \$11,230,000 current maturities). The carrying amount of these bonds was \$38,994,680. The refunding resulted in a difference of \$190,320 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On July 15, 2004, the agency issued \$100,000,000 in Homeownership Program Bonds, Issue 2004-2. On August 1, 2004, the agency used \$7,835,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of \$7,835,000 early redemption and \$0 current maturities). The carrying amount of these bonds was \$7,760,168. The refunding resulted in a difference of \$74,832 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2020. On August 12, 2004, the agency used \$43,920,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding reduced the agency's debt service by \$16,960,633 over the next 26 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$12,082,652.

On October 1, 2004, the agency used \$34,145,000 of Single Family Mortgage Program Notes, 2004CN-1, drawn down on August 31, 2004, to refund bonds previously issued in the Mortgage

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Finance Program and the Homeownership Program (this amount consists of \$34,145,000 early redemption and \$0 current maturities). The carrying amount of these bonds was \$33,943,005. The refunding resulted in a difference of \$201,995 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On January 3, 2005, the second drawdown was made on the Series 2004CN-1 Notes in the amount of \$42,160,000. These proceeds were used to refund bonds previously issued in the Mortgage Finance and Homeownership programs (\$28,685,000 early redemption and \$13,475,000 current maturities). The carrying amount of these bonds was \$41,996,549. The refunding resulted in a difference of \$163,451 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On January 13, 2005, a principal redemption was made on the Series 2002CN-1 Notes in the amount of \$32,910,000.

On January 13, 2005, the agency issued \$100,000,000 in Homeownership Program Bonds, Issue 2004-3. The agency used \$32,910,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used July 1, 2003, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. On March 1, 2005, all outstanding Y1Z1 and Y2Z2 Series bonds in the amount of \$18,175,000 were called. Of this amount, \$700,000 were called at par and the Optional Redemption provision was used to call the remaining \$17,475,000 bonds at 101 percent. Mortgage prepayments and excess reserves were used to call \$1,175,000 of the bonds. The remaining \$17,000,000 was refunded by 2004-3. The carrying amount of these bonds was \$16,913,790. A call premium of \$165,150 was paid on the redemption of these bonds. The refunding resulted in a difference of \$251,360 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2016. The refunding increased the agency's debt service by \$586,997 over the next 26 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$7,701,042.

During the year ended June 30, 2004, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of \$49,335,000 and in the Homeownership Program in the amount of \$91,623,222. The respective carrying values of the bonds were \$49,016,496 and \$90,981,765. This resulted in an expense to the Mortgage Finance Program of \$318,504 and the Homeownership Program of \$641,457.

On July 1, 2003, the agency used \$190,465,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$180,485,000 early redemption and \$9,980,000 current maturities). The carrying amount of these bonds was \$188,991,633. The refunding resulted in a difference of \$1,473,367 between the reacquisition price and the net carrying amount of the old debt. A portion of these notes were refunded with bonds on November 13, 2003, March 11, 2004, August 12, 2004, and January 13, 2005.

On July 31, 2003, the agency issued \$60,000,000 in Homeownership Program Bonds, Issue 2003-2 A & B. On August 14, 2003, the agency used \$27,070,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used January 2, 2003 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The refunding reduced the agency's debt service by \$2,694,900 over the next 28 years,

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and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$4,923,598.

On August 14, 2003 a principal redemption was made on the Series 2002CN-1 Notes in the amount of \$27,070,000.

On September 4, 2003, the agency issued \$191,885,000 in Mortgage Finance Program Bonds, Issue 2003A. On September 17, 2003, all outstanding 1993 Series A bonds were refunded by issue 2003A. Mortgage prepayments and excess reserves were used to call \$39,250,000 of the bonds at par. The Optional Redemption provision was used to call the remaining \$152,670,000 of bonds at 102 percent. The carrying amount of these bonds was \$191,219,164. A call premium of \$3,053,400 was paid on the redemption of these bonds. The refunding resulted in a difference of \$3,754,236 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2028. The refunding increased the agency's debt service by \$27,458,335 over the next 25 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$7,499,720.

On November 3, 2003, the agency used \$89,355,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$89,355,000 early redemption and \$0 current maturities). The carrying amount of these bonds was \$88,675,883. The refunding resulted in a difference of \$679,117 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On November 5, 2003, the agency issued \$75,000,000 in Homeownership Program Bonds, Issue 2003-3 A & B. On November 13, 2003, the agency used \$37,555,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used January 2, 2003 and July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The refunding increased the agency's debt service by \$6,527,806 over the next 30 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$4,000,240.

On November 13, 2003 a principal redemption was made on the Series 2002CN-1 Notes in the amount of \$37,555,000.

On January 2, 2004, the agency used \$27,700,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$22,955,000 early redemption and \$4,745,000 current maturities). The carrying amount of these bonds was \$27,534,157. The refunding resulted in a difference of \$165,843 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On March 4, 2004, the agency issued \$80,000,000 in Homeownership Program Bonds, Issue 2004-1. On March 11, 2004, the agency used \$47,290,000 of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance Program. The refunding increased the agency's debt service by \$3,917,718 over the next 22.5 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$5,637,611.

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On March 11, 2004 a principal redemption was made on the Series 2002CN-1 Notes in the amount of \$47,290,000.

On April 1, 2004, the agency used \$26,565,000 of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$26,565,000 early redemption and \$0 current maturities). The carrying amount of these bonds was \$26,372,070. The refunding resulted in a difference of \$192,930 between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On June 10, 2004 the Series 2002CN-1 Notes were remarketed in the amount of \$273,240,000.

d. Long-term Liability Activity

The following table is a summary of the long-term liability activity for the six months ended December 31, 2005.

Long-term Liabilities					
(Thousands)					
	Beginning Balance <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>December 31, 2005</u>	Amounts Due Within <u>One Year</u>
Notes Payable	\$311,900	\$238,455	(\$248,280)	\$302,075	\$-0-
Bonds Payable	1,435,044	200,788	(112,254)	1,523,578	96,325
Plus: Unamortized Bond Premiums	8,689	3,606	(528)	11,767	-0-
Less: Deferred Amount on Refundings	(10,303)	(42)	605	(9,740)	-0-
Compensated Absences	639	-0-	(13)	626	213
Escrow Deposits	15,360	1,815	(2,231)	14,944	774
Arbitrage Rebate Payable	2,687	1,365	(636)	3,416	-0-
Deferred Revenue	259	68	(62)	265	-0-
Total	\$1,764,275	\$446,055	(\$363,399)	\$1,846,931	\$97,312

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The following table is a summary of the long-term liability activity for the six months ended December 31, 2004.

Long-term Liabilities (Thousands)					
	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance December 31, 2004	Amounts Due Within One Year
Notes Payable	\$273,240	\$73,330	(\$43,920)	\$302,650	\$-0-
Bonds Payable	1,495,513	101,041	(125,481)	1,471,073	110,523
Plus: Unamortized Bond Premiums	4,655	1,910	(197)	6,368	-0-
Less: Deferred Amount on Refundings	(10,869)	(443)	543	(10,769)	-0-
Compensated Absences	572	32	(-0-)	604	290
Escrow Deposits	15,206	4,465	(4,860)	14,811	975
Arbitrage Rebate Payable	6,110	-0-	(3,551)	2,559	-0-
Deferred Revenue	347	51	(36)	362	-0-
Total	\$1,784,774	\$180,386	(\$177,502)	\$1,787,658	\$111,788

The following table is a summary of the long-term liability activity for the year ended June 30, 2005.

Long-term Liabilities (Thousands)					
	Beginning Balance July 1, 2004	Additions	Reductions	Ending Balance June 30, 2005	Amounts Due Within One Year
Notes Payable	\$273,240	\$115,490	(\$76,830)	\$311,900	\$235,595
Bonds Payable	1,495,513	201,957	(262,426)	1,435,044	78,730
Plus: Unamortized Bond Premiums	4,655	4,534	(500)	8,689	-0-
Less: Deferred Amount on Refundings	(10,869)	(690)	1,256	(10,303)	-0-
Compensated Absences	572	496	(429)	639	313
Escrow Deposits	15,206	5,006	(4,852)	15,360	1,485
Arbitrage Rebate Payable	6,110	128	(3,551)	2,687	-0-
Deferred Revenue	347	108	(196)	259	-0-
Total	\$1,784,774	\$327,029	(\$347,528)	\$1,764,275	\$316,123

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The following table is a summary of the long-term liability activity for the year ended June 30, 2004.

Long-term Liabilities					
(Thousands)					
	Beginning Balance July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004	Amounts Due Within One Year
Notes Payable	\$51,070	\$334,085	(\$111,915)	\$273,240	\$-0-
Bonds Payable	1,776,991	409,065	(690,543)	1,495,513	95,459
Plus: Unamortized Bond Premiums	-0-	4,781	(126)	4,655	-0-
Less: Deferred Amount on Refundings	(7,485)	(4,246)	862	(10,869)	-0-
Compensated Absences	627	334	(389)	572	275
Escrow Deposits	15,302	4,029	(4,125)	15,206	1,343
Arbitrage Rebate Payable	2,277	4,261	(428)	6,110	-0-
Deferred Revenue	392	977	(1,022)	347	-0-
Total	\$1,839,174	\$753,286	(\$807,686)	\$1,784,774	\$97,077

e. Notes Issued and Outstanding

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provided for the issuance of agency drawdown notes with a maximum aggregate principal amount of \$65,000,000. On April 1, 1999, the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be \$200,000,000. On December 1, 2002, the Trust Indenture was supplemented providing for the maximum aggregate principal amount to be \$450,000,000.

The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date. On December 1, 2002 the interest rate was changed to ninety-nine percent (99%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of the note activity for the six months ended December 31, 2005.

NOTES ISSUED AND OUTSTANDING							
(Thousands)							
<u>Series</u>	<u>Maturity</u>	<u>Stated Principal</u>	<u>Interest Rate (Percent)</u>	<u>Beginning Balance 7/01/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance 12/31/2005</u>
<u>SINGLE FAMILY MORTGAGE NOTES</u>							
2002CN-1	12/8/2005	\$ 450,000	2.753 to 3.853	\$235,595	\$-0-	(\$235,595)	\$-0-
2004CN-1	8/9/2007	\$ 450,000	2.990 to 4.132	76,305	238,455	(12,685)	302,075
Total Single Family Mortgage Notes				\$311,900	\$238,455	(\$248,280)	\$302,075

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The following table is a summary of the note activity for the six months ended December 31, 2004.

NOTES ISSUED AND OUTSTANDING							
(Thousands)							
<u>Series</u>	<u>Maturity</u>	<u>Stated Principal</u>	<u>Interest Rate (Percent)</u>	<u>Beginning Balance 7/01/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance 12/31/2004</u>
<u>SINGLE FAMILY MORTGAGE NOTES</u>							
2002CN-1	12/8/2005	450,000	1.010 to 1.946	\$273,240	\$39,185	(\$43,920)	\$268,505
2004CN-1	8/9/2007	450,000	1.466 to 2.162	-0-	34,145	(-0-)	34,145
Total Single Family Mortgage Notes				\$273,240	\$73,330	(\$43,920)	\$302,650

The following table is a summary of the note activity for the year ended June 30, 2005.

NOTES ISSUED AND OUTSTANDING							
(Thousands)							
<u>Series</u>	<u>Maturity</u>	<u>Stated Principal</u>	<u>Interest Rate (Percent)</u>	<u>Beginning Balance 7/01/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance 6/30/2005</u>
<u>SINGLE FAMILY MORTGAGE NOTES</u>							
2002CN-1	12/8/2005	\$ 450,000	1.010 to 2.753	\$273,240	\$39,185	(\$76,830)	\$235,595
2004CN-1	8/9/2007	\$ 450,000	1.466 to 2.990	-0-	76,305	(-0-)	76,305
Total Single Family Mortgage Notes				\$273,240	\$115,490	(\$76,830)	\$311,900

The following table is a summary of the note activity for the year ended June 30, 2004.

NOTES ISSUED AND OUTSTANDING							
(Thousands)							
<u>Series</u>	<u>Maturity</u>	<u>Stated Principal</u>	<u>Interest Rate (Percent)</u>	<u>Beginning Balance 7/01/2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance 6/30/2004</u>
<u>SINGLE FAMILY MORTGAGE NOTES</u>							
2002CN-1	12/8/2005	\$450,000	.738 to 1.010	\$51,070	\$334,085	(\$111,915)	\$273,240

The activity of the 2002CN-1 and 2004CN-1 notes shown above is also included in the summary of long-term liability activity in part d. of this note.

NOTE 5. RESTRICTED NET ASSETS

The amount shown on the Statement of Net Assets as Restricted for single family bond programs is contractually pledged, under the bond resolutions of the agency, to the owners of the bonds issued under such bond resolutions. As pledged assets, the contractual provisions of the bond resolutions restrict the use of such assets. However, the assets may be removed from the lien of the bond resolutions if certain parity tests, as established by the respective bond resolutions, are satisfied. Assets removed from the lien of the respective bond resolutions may be used for other purposes.

The amount shown as Restricted for Grant Programs represents unexpended grant money that has been awarded to grantees through various grant programs administered by the agency.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
DECEMBER 31, 2005 (Unaudited), DECEMBER 31, 2004 (Unaudited)
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The amount shown as Restricted for Homebuyers Revolving Loan Program represents the amount of net assets that are restricted for a pilot program that funds zero interest loans for down payment and closing costs. The use of these net assets is restricted under legislation enacted in fiscal year 1986.

NOTE 6. DEFINED BENEFIT PENSION PLAN

The agency contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 10.52% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 2005, 2004, and 2003, were \$753,275, \$480,912, and \$448,684. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by the Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by the Department of Veterans Affairs. The agency's Board of Directors has designated \$750,000 of unrestricted net assets as a provision for possible loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional \$232,000 was designated to provide for losses on loans not specifically covered under one of the above programs, and \$500,000 has been designated for self-insurance of second mortgages.

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

b. Risk Management Fund

The state has set aside assets for claim settlement in an internal service fund, the Risk Management Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Risk Management Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
DECEMBER 31, 2005 (Unaudited), DECEMBER 31, 2004 (Unaudited)
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whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Since the agency participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Risk Management Fund.

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee provides and administers a group health insurance program which provides post-employment health insurance benefits to eligible agency retirees. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 10. PAYMENTS TO PRIMARY GOVERNMENT

From time to time, the State of Tennessee has called upon the agency and its resources, together with resources of other departments, agencies and organizations in state government, to provide funds to the State General Fund to balance the State budget. The following is a description of these occurrences in relationship to the agency. On June 30, 1995, \$15,000,000 from the agency's Housing Program Reserve Fund was transferred to the State General Fund. On June 30, 1998, \$43,000,000 was transferred from the agency to the State General Fund. The \$43,000,000 transferred from the agency came from the following resources of the agency: (i) \$15,459,157 from tax revenues previously directed to the Housing Program Fund; (ii) \$5,028,761 from the Housing Program Reserve Fund; and (iii) \$22,512,082 from the Assets Fund. On June 30, 2002, a transfer from the agency to the primary government in the amount of \$35,367,449 was made from the Assets Fund for the sole purpose of meeting the requirements of funding the operations of the primary government for the year ended June 30, 2002.

NOTE 11. SUBSEQUENT EVENTS

- a.** Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

July 1, 2005	Mortgage Finance Program	\$ 1,895,000
	Homeownership Program	<u>\$22,408,949</u>
	Total	<u>\$24,303,949</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
DECEMBER 31, 2005 (Unaudited), DECEMBER 31, 2004 (Unaudited)
JUNE 30, 2005, AND JUNE 30, 2004

- b. On July 1, 2005 a third drawdown was made on the Series 2004CN-1 Notes in the amount of \$34,620,000. These proceeds were used to refund bonds previously issued in the Mortgage Finance and Homeownership programs (\$16,185,000 early redemption and \$18,435,000 current maturities).
- c. Homeownership Program Bonds, Issue 2005-1, were sold on July 28, 2005. The bond maturities are as follows:

BONDS ISSUED			
(Thousands)			
		Issued	Interest
Series	Maturity Range	Amount	Rate
			(Percent)
2005-1	7/1/2006-1/1/2036	\$100,000	2.75 to 5.00
TOTAL ALL ISSUES		<u>\$100,000</u>	

On August 11, 2005, the agency used \$28,740,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used July 1, 2003, November 3, 2003, January 2, 2004, and July 1, 2004, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs.

- d. Mortgage prepayments and foreclosure proceeds were used to redeem bonds as indicated below:

October 1, 2005	Mortgage Finance Program	\$ 3,475,000
	Homeownership Program	<u>\$51,610,000</u>
	Total	<u>\$55,085,000</u>

NOTE 12. EVENTS (UNAUDITED) SUBSEQUENT TO THE DATE OF INDEPENDENT AUDITOR'S REPORT

- a. Homeownership Program Bonds, Issue 2005-2, were sold on November 17, 2005. The bond maturities are as follows:

BONDS ISSUED			
(Thousands)			
		Issued	Interest
Series	Maturity Range	Amount	Rate
			(Percent)
2005-2	1/1/2007-7/1/2036	\$100,000	3.00 to 5.00
TOTAL ALL ISSUES		<u>\$100,000</u>	

On December 8, 2005, the agency used \$39,630,000 of these bonds to partially refund the convertible drawdown notes, 2002 CN-1, which were used January 1, 2003, July 1, 2003, and April 8, 2004, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The agency also used \$12,685,000 of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used August 31, 2004, January 1, 2005, and July 1, 2005, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
DECEMBER 31, 2005 (Unaudited), DECEMBER 31, 2004 (Unaudited)
JUNE 30, 2005, AND JUNE 30, 2004

- b. On December 8, 2005 a fourth drawdown was made on the Series 2004CN-1 Notes in the amount of \$203,835,000. \$167,225,000 of these proceeds were used to refund 2002 CN-1 at maturity. \$36,610,000 of these proceeds will be used on January 1, 2006 to refund bonds previously issued in the Mortgage Finance and Homeownership programs (\$24,685,000 early redemption and \$11,925,000 current maturities).
- c. Mortgage prepayments, foreclosure proceeds, and note proceeds were used to redeem bonds as indicated below:

January 1, 2006	Mortgage Finance Program	\$ 2,820,000
	Homeownership Program	<u>\$37,810,000</u>
	Total	<u>\$40,630,000</u>

**TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULES OF NET ASSETS
(Expressed in Thousands)**

	December 31, 2005 (Unaudited)				
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Single Family Mortgage Notes	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1	\$ 29,348	\$ 145,796	\$ 303,101	\$ 478,246
Investments	-	7,491	21,491	-	28,982
Receivables:					
Accounts	-	1,057	6,953	-	8,010
Interest	-	2,627	9,827	-	12,454
First mortgage loans	75	7,946	25,068	-	33,089
Due from federal government	18,612	-	-	-	18,612
Total current assets	18,688	48,469	209,135	303,101	579,393
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	20	98	-	118
Investments	-	40,162	144,254	-	184,416
Investment interest receivable	-	558	1,969	-	2,527
Investments	-	69,943	88,569	-	158,512
First mortgage loans receivable	287	181,056	1,208,541	-	1,389,884
Deferred charges	27	1,082	8,325	2,119	11,553
Advance to local government	2,792	-	-	-	2,792
Other receivables	-	-	10	-	10
Capital assets:					
Furniture and equipment	93	-	-	-	93
Less accumulated depreciation	(77)	-	-	-	(77)
Total noncurrent assets	3,122	292,821	1,451,766	2,119	1,749,828
Total assets	21,810	341,290	1,660,901	305,220	2,329,221
LIABILITIES					
Current liabilities:					
Checks payable / Wires payable	12,496	398	226	-	13,120
Accounts payable	-	6	-	-	6
Accrued payroll and related liabilities	-	-	-	-	-
Compensated absences	213	-	-	-	213
Due to primary government	-	-	-	-	-
Interest payable	-	4,160	30,618	821	35,599
Escrow deposits	17	757	-	-	774
Prepayments on mortgage loans	-	120	1,164	-	1,284
Notes payable	-	-	-	-	-
Bonds payable	-	14,090	82,235	-	96,325
Total current liabilities	12,726	19,531	114,243	821	147,321
Noncurrent liabilities:					
Notes payable	-	-	-	302,075	302,075
Bonds payable	-	163,151	1,266,129	-	1,429,280
Compensated absences	413	-	-	-	413
Escrow deposits	238	13,930	2	-	14,170
Arbitrage rebate payable	-	-	3,416	-	3,416
Deferred revenue	-	265	-	-	265
Total noncurrent liabilities	651	177,346	1,269,547	302,075	1,749,619
Total liabilities	13,377	196,877	1,383,790	302,896	1,896,940
NET ASSETS					
Invested in capital assets	16	-	-	-	16
Restricted for single family bond programs	-	144,413	277,111	2,324	423,848
Restricted for grant programs	225	-	-	-	225
Restricted for Homebuyers Revolving Loan Program	3,154	-	-	-	3,154
Unrestricted	5,038	-	-	-	5,038
Total net assets	\$ 8,433	\$ 144,413	\$ 277,111	\$ 2,324	\$ 432,281

June 30, 2005				
Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
\$ 2,838	\$ 25,014	\$ 103,717	\$ 312,527	\$ 444,096
-	-	-	-	-
-	1,631	10,423	-	12,054
-	2,774	9,232	-	12,006
75	8,728	24,136	-	32,939
7,289	-	-	-	7,289
10,202	38,147	147,508	312,527	508,384
-	447	43	-	490
-	41,189	145,667	-	186,856
-	551	1,816	-	2,367
-	73,069	92,405	-	165,474
371	198,328	1,160,086	-	1,358,785
27	1,169	7,639	2,289	11,124
2,707	-	-	-	2,707
-	-	10	-	10
93	-	-	-	93
(77)	-	-	-	(77)
3,121	314,753	1,407,666	2,289	1,727,829
13,323	352,900	1,555,174	314,816	2,236,213
66	503	1,170	25	1,764
653	37	56	-	746
279	-	-	-	279
313	-	-	-	313
42	-	-	-	42
-	4,411	30,376	528	35,315
466	1,019	-	-	1,485
-	139	1,129	-	1,268
-	-	-	235,595	235,595
-	14,220	64,510	-	78,730
1,819	20,329	97,241	236,148	355,537
-	-	-	76,305	76,305
-	175,001	1,179,699	-	1,354,700
326	-	-	-	326
238	13,636	1	-	13,875
-	-	2,687	-	2,687
-	259	-	-	259
564	188,896	1,182,387	76,305	1,448,152
2,383	209,225	1,279,628	312,453	1,803,689
16	-	-	-	16
-	143,675	275,546	2,363	421,584
460	-	-	-	460
3,154	-	-	-	3,154
7,310	-	-	-	7,310
\$ 10,940	\$ 143,675	\$ 275,546	\$ 2,363	\$ 432,524

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
(Expressed in Thousands)

For the Six Months Ended December 31, 2005 (Unaudited)					
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Single Family Mortgage Notes	Totals
OPERATING REVENUES					
Mortgage interest income	\$ -	\$ 6,222	\$ 37,035	\$ -	\$ 43,257
Investment income:					
Interest	4	2,860	8,455	1	11,320
Net increase (decrease) in the fair value of investments	-	(2,865)	(7,441)	5,750	(4,556)
Federal grant administration fees	3,443	-	-	-	3,443
Fees and other income	1,257	1,005	122	-	2,384
Total operating revenues	4,704	7,222	38,171	5,751	55,848
OPERATING EXPENSES					
Salaries and benefits	4,987	-	-	-	4,987
Contractual services	1,013	-	-	-	1,013
Materials and supplies	161	-	-	-	161
Rentals and insurance	482	-	-	-	482
Other administrative expenses	215	-	-	-	215
Other program expenses	10	625	1,035	2	1,672
Interest expense	-	4,439	32,308	5,771	42,518
Mortgage service fees	-	315	2,210	-	2,525
Issuance costs	-	39	216	8	263
Depreciation	-	-	-	-	-
Total operating expenses	6,868	5,418	35,769	5,781	53,836
Operating income (loss)	(2,164)	1,804	2,402	(30)	2,012
NONOPERATING REVENUES (EXPENSES)					
Federal grants revenue	78,821	-	-	-	78,821
Federal grants expenses	(78,821)	-	-	-	(78,821)
Local grants expenses	(290)	(55)	(1,910)	-	(2,255)
Total nonoperating revenues (expenses)	(290)	(55)	(1,910)	-	(2,255)
Income (loss) before transfers	(2,454)	1,749	492	(30)	(243)
Transfers (to) other funds	(53)	(1,011)	-	(9)	(1,073)
Transfers from other funds	-	-	1,073	-	1,073
Change in net assets	(2,507)	738	1,565	(39)	(243)
Total net assets, July 1	10,940	143,675	275,546	2,363	432,524
Total net assets, End of period	\$ 8,433	\$ 144,413	\$ 277,111	\$ 2,324	\$ 432,281

For the Year Ended June 31, 2005

Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Single Family Mortgage Notes	Totals
\$ -	\$ 14,545	\$ 73,893	\$ -	\$ 88,438
135	4,999	15,644	1	20,779
-	3,438	8,586	6,204	18,228
9,861	-	-	-	9,861
2,315	859	-	-	3,174
12,311	23,841	98,123	6,205	140,480
9,778	-	-	-	9,778
1,707	-	-	-	1,707
460	-	-	-	460
996	-	-	-	996
371	-	-	-	371
342	206	1,004	14	1,566
-	9,872	65,320	6,102	81,294
-	736	4,338	-	5,074
-	88	450	165	703
5	-	-	-	5
13,659	10,902	71,112	6,281	101,954
(1,348)	12,939	27,011	(76)	38,526
151,630	-	-	-	151,630
(151,630)	-	-	-	(151,630)
(1,082)	-	(2,995)	-	(4,077)
(1,082)	-	(2,995)	-	(4,077)
(2,430)	12,939	24,016	(76)	34,449
-	(16,758)	-	-	(16,758)
250	-	16,077	431	16,758
(2,180)	(3,819)	40,093	355	34,449
13,120	147,494	235,453	2,008	398,075
\$ 10,940	\$ 143,675	\$ 275,546	\$ 2,363	\$ 432,524

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULES OF CASH FLOWS
(Expressed in Thousands)

For the Six Months Ended December 31, 2005 (Unaudited)					
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Single Family Mortgage Notes	Totals
Cash flows from operating activities:					
Receipts from customers	\$ (450)	\$ 25,005	\$ 129,246	\$ -	\$ 153,801
Receipts from federal government	1,568	-	-	-	1,568
Receipts from other funds	-	-	-	-	-
Other miscellaneous receipts	1,257	1,005	122	-	2,384
Acquisition of mortgage loans	-	-	(138,470)	-	(138,470)
Payments to service mortgages	-	(315)	(2,210)	-	(2,525)
Payments to suppliers	(2,141)	(617)	(872)	(2)	(3,632)
Payments to federal government	-	-	729	-	729
Payments to other funds	-	-	-	-	-
Payments to employees	(5,434)	-	-	-	(5,434)
Net cash provided (used) by operating activities	(5,200)	25,078	(11,455)	(2)	8,421
Cash flows from non-capital financing activities:					
Operating grants received	69,373	-	-	-	69,373
Operating transfers in (out)	(53)	(1,002)	1,045	10	-
Negative cash balance implicitly financed (repaid)	12,430	(105)	(944)	(25)	11,356
Proceeds from sale of bonds	-	-	203,607	-	203,607
Proceeds from issuance of notes	-	-	-	238,455	238,455
Operating grants paid	(79,391)	(55)	(1,910)	-	(81,356)
Call premium paid	-	-	-	-	-
Cost of issuance paid	-	-	(1,483)	(8)	(1,491)
Principal payments	-	(12,210)	(100,044)	(248,280)	(360,534)
Interest paid	-	(4,460)	(31,084)	(5,327)	(40,871)
Net cash provided (used) by non-capital financing activities	2,359	(17,832)	69,187	(15,175)	38,539
Cash flows from capital and related financing activities:					
Purchases of capital assets	-	-	-	-	-
Net cash used by capital and related financing activities	-	-	-	-	-
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	-	11,802	11,936	-	23,738
Purchases of investments	-	(18,005)	(35,619)	-	(53,624)
Investment interest received	4	2,864	8,085	5,751	16,704
Net cash provided (used) by investing activities	4	(3,339)	(15,598)	5,751	(13,182)
Net increase (decrease) in cash and cash equivalents	(2,837)	3,907	42,134	(9,426)	33,778
Cash and cash equivalents, July 1	2,838	25,461	103,760	312,527	444,586
Cash and cash equivalents, End of period	\$ 1	\$ 29,368	\$ 145,894	\$ 303,101	\$ 478,364

For the Year Ended June 30, 2005

Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals
\$ 221	\$ 56,028	\$ 273,603	\$ -	\$ 329,852
6,079	-	-	-	6,079
-	14,441	-	-	14,441
2,315	859	-	-	3,174
-	-	(215,315)	-	(215,315)
-	(736)	(4,338)	-	(5,074)
(4,095)	(116)	(400)	(14)	(4,625)
-	(1,606)	(1,792)	(25)	(3,423)
(36)	-	(14,404)	(1)	(14,441)
(10,005)	-	-	-	(10,005)
<u>(5,521)</u>	<u>68,870</u>	<u>37,354</u>	<u>(40)</u>	<u>100,663</u>
158,188	-	-	-	158,188
250	(16,715)	16,286	179	-
64	343	337	25	769
-	-	203,534	-	203,534
-	-	-	115,490	115,490
(152,894)	-	(2,995)	-	(155,889)
-	-	(175)	-	(175)
-	-	(1,533)	(165)	(1,698)
-	(35,370)	(227,056)	(76,830)	(339,256)
-	(10,331)	(63,439)	(5,732)	(79,502)
<u>5,608</u>	<u>(62,073)</u>	<u>(75,041)</u>	<u>32,967</u>	<u>(98,539)</u>
<u>(5)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5)</u>
<u>(5)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5)</u>
-	21,785	51,906	-	73,691
-	(21,432)	(13,475)	-	(34,907)
135	4,907	16,139	6,205	27,386
<u>135</u>	<u>5,260</u>	<u>54,570</u>	<u>6,205</u>	<u>66,170</u>
217	12,057	16,883	39,132	68,289
2,621	13,404	86,877	273,395	376,297
<u>\$ 2,838</u>	<u>\$ 25,461</u>	<u>\$ 103,760</u>	<u>\$ 312,527</u>	<u>\$ 444,586</u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULES OF CASH FLOWS (cont.)
(Expressed in Thousands)

	For the Six Months Ended December 31, 2005				
	(Unaudited)				
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Single Family Mortgage Notes	Totals
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (2,164)	\$ 1,804	\$ 2,402	\$ (30)	\$ 2,012
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation and amortization	-	39	216	8	263
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	-	574	3,470	-	4,044
(Increase) decrease in mortgage interest receivable	-	136	(377)	-	(241)
(Increase) decrease in first mortgage loans receivable	(1)	18,054	(49,387)	-	(31,334)
(Increase) in due from federal government	(1,875)	-	-	-	(1,875)
(Increase) decrease in deferred charges	-	39	219	-	258
(Increase) in interfund receivables	-	-	-	-	-
Increase in interfund payables	-	-	-	-	-
(Decrease) in accounts payable	(822)	(18)	(21)	-	(861)
Increase (decrease) in accrued payroll / compensated absences	(292)	-	-	-	(292)
(Decrease) in due to primary government	(42)	-	-	-	(42)
Increase (decrease) in deferred revenue	-	6	-	-	6
Increase (decrease) in arbitrage rebate liability	-	-	729	-	729
Investment (income) loss included as operating revenue	(4)	5	(1,014)	(5,751)	(6,764)
Interest expense included as operating expense	-	4,439	32,308	5,771	42,518
Total adjustments	(3,036)	23,274	(13,857)	28	6,409
Net cash provided (used) by operating activities	\$ (5,200)	\$ 25,078	\$ (11,455)	\$ (2)	\$ 8,421
Noncash investing, capital, and financing activities:					
Accretion of deep discount bonds	\$ -	\$ -	\$ 788	\$ -	\$ 788
Increase (decrease) in fair value of investments	-	(2,892)	(7,531)	906	(9,517)
Total noncash investing, capital, and financing activities	\$ -	\$ (2,892)	\$ (6,743)	\$ 906	\$ (8,729)

For the Year Ended June 30, 2005				
Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Single Family Mortgage Notes	Totals
\$ (1,348)	\$ 12,939	\$ 27,011	\$ (76)	\$ 38,526
5	88	450	165	708
-	786	(1,069)	-	(283)
-	441	853	-	1,294
-	40,466	(15,261)	-	25,205
(3,782)	-	-	-	(3,782)
(6)	65	548	-	607
(36)	-	(14,404)	(1)	(14,441)
-	14,441	-	-	14,441
(287)	(97)	(72)	-	(456)
68	-	-	-	68
-	-	-	-	-
-	(88)	-	-	(88)
-	(1,606)	(1,792)	(25)	(3,423)
(135)	(8,437)	(24,230)	(6,205)	(39,007)
-	9,872	65,320	6,102	81,294
(4,173)	55,931	10,343	36	62,137
\$ (5,521)	\$ 68,870	\$ 37,354	\$ (40)	\$ 100,663
\$ -	\$ -	\$ 1,957	\$ -	\$ 1,957
-	2,911	7,489	-	10,400
\$ -	\$ 2,911	\$ 9,446	\$ -	\$ 12,357

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - OPERATING GROUP
DECEMBER 31, 2005
(Expressed in Thousands)
(Unaudited)

	Housing Program Fund	Direct Servicing	Operating Group Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ -	\$ 1	\$ 1
Receivables:			
First mortgage loans	75	-	75
Due from federal government	18,612	-	18,612
Total current assets	18,687	1	18,688
Noncurrent assets:			
First mortgage loans receivable	287	-	287
Deferred charges	27	-	27
Advance to local government	2,792	-	2,792
Capital assets:			
Furniture and equipment	93	-	93
Less accumulated depreciation	(77)	-	(77)
Total noncurrent assets	3,122	-	3,122
Total assets	21,809	1	21,810
LIABILITIES			
Current liabilities:			
Checks payable / Wires payable	12,492	4	12,496
Compensated absences	213	-	213
Escrow deposits	-	17	17
Total current liabilities	12,705	21	12,726
Noncurrent liabilities:			
Compensated absences	413	-	413
Escrow deposits	238	-	238
Total noncurrent liabilities	651	-	651
Total liabilities	13,356	21	13,377
NET ASSETS			
Invested in capital assets	16	-	16
Restricted for grant programs	225	-	225
Restricted for Homebuyers Revolving Loan Program	3,154	-	3,154
Unrestricted	5,058	(20)	5,038
Total net assets	\$ 8,453	\$ (20)	\$ 8,433

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY INFORMATION
SUPPLEMENTARY SCHEDULE OF NET ASSETS - MORTGAGE FINANCE PROGRAM
DECEMBER 31, 2005
(Expressed in Thousands)
(Unaudited)

	Mortgage Finance Bond	General Fund	Mortgage Finance Bond Group Total*	Escrow Fund**	Mortgage Finance Program Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 21,069	\$ 6,239	\$ 27,308	\$ 2,040	\$ 29,348
Investments	7,491		7,491	-	7,491
Receivables:					
Accounts	1,057	-	1,057	-	1,057
Interest	2,023	481	2,504	123	2,627
First mortgage loans	7,512	434	7,946	-	7,946
Total current assets	39,152	7,154	46,306	2,163	48,469
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	20	-	20	-	20
Investments	40,162	-	40,162	-	40,162
Investment interest receivable	558	-	558	-	558
Investments	36,114	22,822	58,936	11,007	69,943
First mortgage loans receivable	176,750	4,306	181,056	-	181,056
Deferred charges	1,082	-	1,082	-	1,082
Total noncurrent assets	254,686	27,128	281,814	11,007	292,821
Total assets	293,838	34,282	328,120	13,170	341,290
LIABILITIES					
Current liabilities:					
Checks payable	49	119	168	230	398
Accounts payable	-	6	6	-	6
Interest payable	4,160	-	4,160	-	4,160
Escrow deposits	-	-	-	757	757
Prepayments on mortgage loans	115	5	120	-	120
Bonds payable	14,090	-	14,090	-	14,090
Total current liabilities	18,414	130	18,544	987	19,531
Noncurrent liabilities:					
Bonds payable	163,151	-	163,151	-	163,151
Escrow deposits	-	1,750	1,750	12,180	13,930
Deferred revenue	-	221	221	44	265
Total noncurrent liabilities	163,151	1,971	165,122	12,224	177,346
Total liabilities	181,565	2,101	183,666	13,211	196,877
NET ASSETS					
Restricted for single family bond programs	112,273	32,181	144,454	(41)	144,413
Total net assets	\$ 112,273	\$ 32,181	\$ 144,454	\$ (41)	\$ 144,413

* The Mortgage Finance Bond Group Total represents the funds pledged to the Mortgage Finance Program Resolution.

** The Escrow Funds can only be used for escrow payments.